

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

March 1, 2002

The Honorable Kent Conrad
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Pete Domenici
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Kent and Pete:

As Chairman and members of the Committee on Small Business and Entrepreneurship, we are submitting the following views and estimates on the President's FY2003 budget request for the Small Business Administration (SBA or Agency) and other matters under the Committee's jurisdiction in compliance with section 301(d) of the Congressional Budget Act .

FY 2003 Budget Request Overview

The Administration has requested \$798 million for the SBA's FY2003 budget. Last year, the President requested \$539 million, and Congress appropriated \$768.5 million. While this year's overall request is an increase, virtually all of it goes to administrative expenses and staffing and leaves core programs inadequately funded. To adequately fund those programs, we are short about \$200 million.

Of major concern is the 17 percent decrease in small-business lending and investment programs from \$19.7 billion to \$16.4 billion. The SBA's programs are typically counter-cyclical, growing in demand when the economy is weak and the private sector tightens credit. This economy is proving no different. For example, over the past year, lending surveys by the Federal Reserve found that more than 40 percent of banks cut back on lending to small businesses, making it harder and more expensive to get loans. Consistent with that, in dollars, the FY2002 usage of 7(a) loans is up 16 percent and of 504 loans by 26 percent, over the same period in FY2001. Given the economy and the increased demand for the SBA's credit programs, this budget request is insufficient to meet the needs of small businesses, and we do not support it.

Specifically, we oppose the 50 percent reduction in the 7(a) Loan Guaranty Program, the fee increase in the 504 Loan Guaranty Program, and the insufficient funding for the SBA Microloan Program. The 7(a) loan program, which is critical to our nation's small businesses for long-term working capital, is proposed to be funded at a program level of \$4.85 billion for FY2003. If implemented, that proposal would have a serious impact on our states. For example, in FY2001, 234 small businesses in North

Dakota got 7(a) loans, which meant \$41 million invested in the economy and, by the SBA's own budget assumptions, the creation of 1,242 jobs. In New Mexico, 201 small businesses got 7(a) loans, which meant \$44 million invested in the economy and the creation of 1,333 jobs. Nationwide, as big business carried out massive lay-offs and two million people lost their jobs, it is estimated that the 7(a) program created nearly 300,000 jobs. To provide \$11 billion in 7(a) loans, we request an additional appropriation of \$93 million to bring the Administration's request of \$85 million to a total of \$178 million.

In order to prevent losing half of that stimulus to the economy, we oppose the budget proposal and request a program level of \$11 billion. This is a slight increase over the historical program level of \$10 billion, but our request is far less than the authorized level of \$16 billion and is reasonable given the increase in demand described earlier.

In addition to inadequate funding for 7(a) loans, we are concerned about the inaccuracy of its subsidy rate. Year after year, we struggle to secure adequate funding only to have the same amount and more returned to Treasury. For example, in FY2002, the budget estimates that \$100 million will be appropriated for working capital loans, and that \$179 million will be returned. Unfortunately, this problem is not isolated. The subsidy rates for most of the SBA's credit programs are a serious problem for the Agency and are burdensome on borrowers and lenders, including the 504 program, the Microloan Program, and the SBIC programs. We ask for the Budget Committee's help in rectifying this problem and possibly amending the Federal Credit Reform Act as you reauthorize it this year.

Another major concern about the budget is funding for the 504 program. As you know, the 504 loan program is not funded through appropriations; it is funded entirely through fees paid by borrowers and lenders. The fees are excessive, and have resulted in about \$400 million in negative re-estimates over the past several years. In the FY2003 budget, even though defaults went down slightly, the subsidy rate for the 504 program went up. Consequently, this caused the borrower's annual loan fee to rise. It is very hard to justify an increase in fees when the President's budget estimates that in FY2002 the 504 loan program will send \$110 million to Treasury. In order to provide fee relief for the borrowers and compensate for the increase, we request \$13 million for the 504 loan program. We also request \$34 million to provide some funding for one year of the two-year fee changes enacted as part of PL 107-100.

Like 7(a) and 504 loans, the budget does not request adequate funding for the Microloan Program. The Administration has requested a program level of \$26.5 million for direct microloans, and \$17.5 million for microloan technical assistance. We are greatly concerned about the technical assistance request because \$17.5 million is not even enough to maintain the outstanding portfolio of microloans.

As you know from previous letters, microloan technical assistance is integral to the success of micro-entrepreneurs, and therefore to the success of the program, because it helps ensure repayment of the loans. Since this program made its first loan in 1992, there have been *no* losses to the government. No other program has this success rate. The Committee has had a very hard time securing adequate microloan technical assistance in the past, and we respectfully urge you to consider a level of \$35 million.

That would be enough to serve outstanding microloans and to serve new microloans to be made in FY2003. We request a program level of \$35 million for direct microloans because, as with the 7(a) and 504 programs, usage is up. During times of major lay-offs, the need for microlending increases because people turn to self-employment and income-patching to support themselves. In summary, we request an extra appropriation of \$17.5 million for microloan technical assistance for a total budget of \$35 million, and an extra appropriation of \$1.1 million for direct microloans for a total program level of \$35 million.

Unfortunately, microloan technical assistance is not the only non-credit program to be under-funded or cut in the FY2003 budget. The BusinessLINC Program and the Program for Investment for Microenterprises (PRIME) were completely eliminated from the budget. As with last year, we request \$7 million for BusinessLINC and \$15 million for PRIME. Women's Business Centers were funded at \$12 million, and we request an additional \$2.5 million for a program level of \$14.5 million. Between 1997 and 2002, women-owned businesses increased 14 percent, which is twice the rate of all firms in the U.S. It makes no sense to freeze funding for women's business centers when the demand is increasing. The grants to centers have been cut in past years because of inadequate funding. If we are to fund existing centers and also fund new centers, which was Congress' intent when it passed the Women's Business Center Sustainability Act in 1999, then the program must be funded at \$14.5 million.

The Administration has requested \$88 million for the Small Business Development Centers (SBDCs). Once again, this is not adequate to serve small businesses in our country. In FY2001, the SBDC program provided counseling and training assistance to almost 610,000 clients. These figures represent almost a 5 percent increase over FY2000. Last year 24 states took serious cuts in federal funding because of population changes identified by the 2000 Census. It wasn't because they lost population; it was because their population did not grow as fast as the national average during the '90s. We cannot expect the SBDCs to serve the same number of businesses, with the same quality, with fewer dollars. To rectify the shortfall, consistent with Amendment No. 183 that passed by unanimous consent to the FY2002 budget resolution, we request a program level of \$105 million. This amount would help compensate for the growth in demand and restore cuts that states took last year as a result of the 2000 Census.

We do fully support the following: a program level of \$4.5 billion for 504 loans; a program level of \$4 billion for SBIC Participating Securities; a program level of \$3 billion for SBIC Debentures; \$1.5 million for the state conferences on small business; \$500,000 for PRO-Net; and \$1 million to fund outreach to Native Americans. With an average unemployment rate of 43 percent on reservations, as cited in the budget, it is an understatement to say we need to concentrate on using the SBA's counseling and lending partners to build sustainable economic opportunity in those communities.

As Chairman and members of the Committee, we have two more requests. One, we would like a line item for the SBA's Office of Advocacy. In order to give the Office of Advocacy true independence from the Agency, as has always been intended by its authorizing legislation, it needs to control its budget and its hiring. We also request a line item for the relocation of employees. Under salaries and expenses,

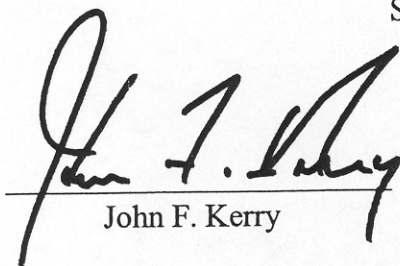
the budget for "travel and transportation of employees" increased from \$3.8 million to \$7.9 million. That is more than double. In the footnotes, the increase is justified as "a small increase to restore these funds back to a more normal operating level, plus costs of proposed employee relocations." Rather than lump the two expenditures together, we recommend separating them.

You have asked for guidance for programs under the jurisdiction of the Committee on Small Business and Entrepreneurship for the ten-year period of 2003-2012. We would like to work further with you to develop these projections because we disagree with the baseline in the chart CBO provided. The starting baseline for FY2002 for the Small Business Administration's credit programs and non-credit programs, which are calculated as part of salaries and expenses, is too low. For example, in FY2002, the President's budget proposal cut funding for the SBA's non-disaster programs by 26 percent. While significant cuts were restored, level funding was far less than levels set by the authorizing Committee, and historically the Agency has not seen adequate funding for its programs to maximize their potential to the economy. We ask that you not use the ten-year projection provided and that we work to establish a baseline before applying CBO's inflators that will guide the budget authority targets for the next ten years.

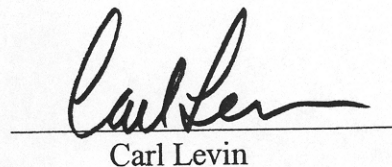
In closing, let us thank you for all your help last year. While this year's budget for the SBA is not good, last year's was far worse and your support helped prevent harmful proposals from being enacted. Probably the most serious was the increase in interest rates on disaster loans. No one could have known that the terrorist attacks of September 11th would happen, but we do know that the people who lost homes and businesses would be much worse off today if they were being charged more for their disaster loans. Again, thank you.

We look forward to the opportunity to work with you to develop this portion of the Budget Resolution for FY2003.

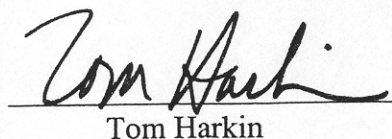
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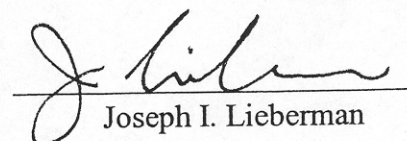
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